

SLND-GUARANTOR BULLETIN

#4-06

September 6, 2006

1. **Total and Permanent Disability Discharge Application**

GEN-06-14 announced the approval of the Total and Permanent Disability Discharge Application. The Application was approved by OMB with no changes from the previously approved version of the form, only with a new expiration date of May 31, 2008. Borrowers should contact their lender for eligibility determination.

2. **Common Manual Updates**

Batch 131, 132 and Batch 133 Common Manual policy changes include the topics of:

Eligibility for a Subsequent Consolidation Loan
Consolidation loan Eligibility for Married Couples
Disbursement Rules
Student Eligibility
Lender Disbursement Through an Escrow Agent
When Federal Interest Benefits Will Be Paid
Reduced Claim Payment Rate on Default Claims
Rehabilitation of Defaulted Loans
School as Lender Changes
Teacher Loan Forgiveness Eligibility
Change in Stafford Loan Interest Rate
Federal Consolidation Loan Borrower Eligibility Criteria
Deferment Eligibility Chart
Academic Year Definition
Elimination of Request for Early Repayment
Federal Default Fee
Fraud Charges and Title IV Eligibility
False Certification Due to Identity Theft
Reduction of the Origination Fee
Return of Title IV Funds
Cost of Attendance
Independent Student Definition
Treatment of Qualified Education Benefits
Qualified Education Benefit
Assistance from States
PLUS Loans for Graduate and Professional Students
Program Eligibility Using Direct Assessment
Expansion of Eligibility by Telecommunications and Correspondence Programs
Exceeding Loan Limits

Change in PLUS Interest Rate
Late Disbursement and Post-Withdrawal Disbursement of FFELP Funds
New Military Deferment
Forbearance Agreements
Ineligible Borrower Claims
Special Allowance Rates

3. Retraction of Proposal 867, Batch 130

Common Manual subsection 11.1.A has been revised to remove policy language inserted into the manual by proposal 867 in batch 130; the *Common Manual* Governing Board has approved the retraction of the common bulletin language associated with this policy as well. Based on concerns received from the FFELP community with the final policy language, the Policy Committee has determined that it would be beneficial to develop a community workgroup to address the issues raised on proposal 867.

The manual's original policy language, as it existed before modifications made by proposal 867, remains. The manual now states that once a borrower is considered to be a "new borrower" in the applicable category, the borrower remains eligible for deferment in that category on all subsequent loans. Once the loans that qualified the borrower as a "new borrower" in one category are paid in full (except through consolidation), the borrower will be eligible for deferment based on the provisions effective for new loans he or she obtains.

Affected Section: 11.1.A General Deferment Eligibility Criteria



Policy Changes Approved

Batch 131: Proposal 869, 868 & 870 - 881

Batch 132: Proposal 882-892

Batch 133: Proposal 893-902

The nation's guarantors provide the following summaries to inform schools, lenders, and servicers of the latest *Common Manual* policy changes. These changes will appear in the manual's next annual update. These changes will also be incorporated into the *Integrated Common Manual*. The *Integrated Common Manual* is available on several guarantor websites, and it is also available on NCHELP's website at www.NCHELP.org in the e-library. Please carefully note the effective date of each policy change.

Eligibility for a Subsequent Consolidation Loan

The *Common Manual* has been revised to incorporate HERA and the Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Hurricane Recovery provisions. Revised policy clarifies that a borrower who currently has *either* a Federal *or* Direct Consolidation loan is not eligible for a subsequent Federal *or* Direct Consolidation loan unless one of the following conditions apply:

1. The borrower has obtained a new eligible loan after the date the existing Consolidation loan was made.
2. The borrower is consolidating an existing Consolidation loan with at least one other eligible loan, regardless of whether it was made before or after the date the existing Consolidation loan was made.

Revised policy also adds that a borrower may obtain a subsequent Direct Consolidation loan for the purpose of securing an income-contingent repayment schedule if the consolidation loan holder has requested default aversion assistance from the guarantor.

Affected Sections:	15.2 Borrower Eligibility and Underlying Loan Holder Requirements
Effective Date:	Federal Consolidation loan applications received by the lender on or after July 1, 2006.
Basis:	Higher Education Act of 1965, Sections 428C(a)(3)(B)(I), as amended by the Higher Education Reconciliation Act (HERA) of 2005 and the Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Hurricane Recovery 2006; Dear Colleague Letter GEN-06-02.
Policy Information:	869/Batch 131
Guarantor Comments:	None.

Consolidation Loan Eligibility for Married Couples

The *Common Manual* has been revised to comply with statutory changes derived from the Higher Education Reconciliation Act of 2005 by eliminating the option for a married couple to consolidate their eligible loans jointly.

Affected Sections:	Chapter 15 Introduction 15.1.A Agreement to Guarantee Federal Consolidation Loans 15.2 Borrower Eligibility and Underlying Loan Holder Requirements 15.3.B Completing the Application
Effective Date:	Federal Consolidation loan applications received by the lender on or after July 1, 2006.
Basis:	Higher Education Act of 1965, Section 428C(a)(3)(C), as amended by the Higher Education Reconciliation Act (HERA) of 2005; Dear Colleague Letter GEN-06-02.
Policy Information:	868/Batch 131
Guarantor Comments:	None.

Disbursement Rules

The *Common Manual* has been updated to include the revised disbursement requirements derived from the HERA, as follows:

- The lender, at the request of a student enrolled in a study-abroad program that is approved for credit by the home institution, must disburse loan funds directly to the student or pursuant to an authorized power of attorney, *only after* the student's enrollment is verified by the lender or the guarantor. Loan disbursement may be made directly to a student enrolled in a foreign school *at the school's request* after the student's enrollment is verified by the lender or guarantor. Students enrolled in foreign schools may not execute a power of attorney for the purpose of endorsing their FFELP loan disbursement.
- Foreign schools are no longer automatically exempt from the delayed delivery and multiple disbursement requirements but may be exempted based on low cohort default rates.
- The delayed delivery requirement and the single-term multiple disbursement requirement will be waived for schools that have a cohort default rate of less than 10 percent for each of the three most recent fiscal years for which data are available.

Affected Sections:	6.4.A Multiple Disbursements and Exceptions 7.7 Loan Origination 7.7.B Multiple Disbursement 7.7.C Disbursement by Individual Check 7.7.E Disbursement for Students in Study-Abroad Programs or Foreign Schools 8.7.D Delayed Delivery
Effective Date:	The new rules for direct disbursement to students enrolled in foreign schools and study-abroad programs are effective for loans first disbursed on or after July 1, 2006. The requirement for foreign schools to comply with the multiple disbursement and delayed delivery requirements is effective for loan periods beginning on or after July 1, 2006. The waiver of the multiple disbursement rule for schools with cohort default rates of less than 10% for each of the three most recent fiscal years for which information is available is effective for any disbursement made on or after February 8, 2006. The waiver of the delayed disbursement rule for schools with cohort default rates of less than 10% for each of the three most recent fiscal years for which information is available is effective for any disbursement made on or after February 8, 2006.
Basis:	Higher Education Act of 1965, Sections 428(b)(1)(N), 428G(a)(3), 428G(b)(1), and 428G(e), as amended by the Higher Education Reconciliation Act (HERA) of 2005, Dear Colleague Letter GEN-06-02.
Policy Information:	870 /Batch 131
Guarantor Comments:	None.

Student Eligibility

The *Common Manual* has been updated to state that a student who has been convicted of a state or federal drug-related offense that occurred while the student was enrolled in school and receiving Title IV aid is not eligible for Title IV funds.

Affected Sections:	5.1.B Student Eligibility Requirements 5.7 Effect of Drug Conviction on Eligibility
Effective Date:	For loan periods beginning on or after July 1, 2006.
Basis:	Higher Education Act of 1965, Section 484(r)(1), as amended by the Higher Education Reconciliation Act (HERA) of 2005; Dear Colleague Letter GEN-06-05.

Policy Information: 871/Batch 131
Guarantor Comments: None.

Lender Disbursement Through an Escrow Agent

The *Common Manual* has been revised with statutory changes derived from the Higher Education Reconciliation Act of 2005. Revised policy requires a lender that disburses loan proceeds through an escrow agent to require the escrow agent to disburse the loan proceeds no later than 10 days after the agent receives the proceeds from the lender.

Affected Sections: 7.7 Disbursing the Loan
Effective Date: Loan proceeds paid by a lender to an escrow agent on or after July 1, 2006.
Basis: Higher Education Act of 1965, Section 428(i)(1), as amended by the Higher Education Reconciliation Act (HERA) of 2005; Dear Colleague Letter GEN-06-02.
Policy Information: 872/Batch 131
Guarantor Comments: None.

When Federal Interest Benefits Will Be Paid

As a result of statutory changes derived from the Higher Education Reconciliation Act of 2005, the *Common Manual* has been revised to state that if a loan is disbursed through an escrow agent, the lender may begin accrual of interest benefits no earlier than three days before the date of the first disbursement of the loan. For these purposes, disbursement means disbursement to the school or direct disbursement to the borrower.

Affected Sections: A.1.B When Federal Interest Benefits Will Be Paid
Effective Date: Loan proceeds paid by a lender to an escrow agent on or after July 1, 2006.
Basis: Higher Education Act of 1965, Section 428(a)(3)(A)(v), as amended by the Higher Education Reconciliation Act (HERA) of 2005, Dear Colleague Letter GEN-06-02.
Policy Information: 873/Batch 131
Guarantor Comments: None.

Reduced Claim Payment Rate on Default Claims

The *Common Manual* has been amended to comply with statutory changes that reduce the amount of insurance paid on a default claim submitted by a non-exceptional performer lender or servicer on loans first disbursed on or after July 1, 2006. The guarantor will pay a default claim on such a loan at a rate of 97% of outstanding principal and eligible interest.

The *Common Manual* also has been amended to comply with statutory changes that reduce the amount of insurance paid on a default claim submitted by an exceptional performer lender or servicer to 99% of outstanding principal and eligible interest on default claims submitted on or after July 1, 2006. The guarantor will pay a default claim submitted by an exceptional performer lender or servicer prior to July 1, 2006, at the previous rate of 100% of outstanding principal and eligible interest.

Affected Sections: 3.9 Exceptional Performer Designation
13.3.A Claim Payment Amount
13.3.B Amount of Interest Purchased on Eligible Claim
13.3.C Amount of Interest Purchased on Returned Claims
13.4 Requests for Increase in Claim Payment
Effective Date: Default claims submitted by a non-exceptional performer lender on loans first disbursed on or after July 1, 2006.
Default claims submitted by an exceptional performer lender on or after July 1, 2006.
Basis: Higher Education Act of 1965, Sections 428(b)(1)(G) and 428I(b)(1), as amended by the Higher Education Reconciliation Act (HERA) of 2005; Dear Colleague Letter GEN-06-02.
Policy Information: 874/Batch 131
Guarantor Comments: None.

Rehabilitation of Defaulted Loans

The *Common Manual* has been updated to reflect that a borrower is eligible to rehabilitate a defaulted loan after making nine full monthly payments that are received by the guarantor or its contracted vendor within 20 days of the due date during a period of 10 consecutive months.

Affected Sections:	5.2.E Prior Default 13.7 Rehabilitation of Defaulted Loans
Effective Date:	Loan rehabilitation agreements beginning on or after July 1, 2006. Guarantors have the option of considering borrowers to have met the new rehabilitation standard if at least one of the borrower's payments under the rehabilitation agreement is made on or after July 1, 2006.
Basis:	Higher Education Act of 1965, Section 428F(a)(1)(A), as amended by the Higher Education Reconciliation Act (HERA) of 2005; Dear Colleague Letter GEN-06-02.
Policy Information:	875/Batch 131
Guarantor Comments:	None.

School as Lender Changes

A school must have been eligible to be a school lender as of February 7, 2006, and must have made a loan(s) on or before April 1, 2006, to participate as a lender in the Federal Family Education Loan Program (FFELP) on or after July 1, 2006. The *Common Manual* has been updated to include the revised school-as-lender criteria derived from the Higher Education Reconciliation Act (HERA) of 2005, as follows:

- The HERA revises the requirement that the school not make loans to more than 50% of its undergraduate students by limiting lending to graduate and professional students.
- The HERA eliminates the requirement that the school not make a loan to an undergraduate student unless the student provides evidence that he or she was denied a loan by a commercial lender.

Schools are not permitted to make loans to undergraduate students under the new provisions, so limitations on undergraduate lending are no longer necessary.

The following rules apply to schools acting as lenders in the FFELP on or after July 1, 2006:

- The school must not be a home-study school.
- The school may make subsidized and unsubsidized Stafford loans only to its graduate and professional students. The school may not make PLUS loans or Consolidation loans.
- The school is permitted to make loans only to its graduate and professional students.
- The school must offer origination fees or interest rates, or both, that are less than the statutory maximums for those fees or rates.
- The school must use the proceeds from its interest benefits and special allowance payments from the Department and from interest payments from its borrowers, as well as the proceeds from the sale or other disposition of its loans, for need-based grant programs, except for reimbursement of reasonable, direct administrative expenses. The school must ensure that the proceeds from the FFELP loan portfolio are used to supplement the non-federal grant funding sources rather than substitute for funds from those other sources.
- The school must not have a cohort default rate that exceeds 10% for each of the two most recent fiscal years—unless it has received a waiver on this restriction from the Department.
- The school must award any contract for financing, servicing, or administration of its FFELP loans on a competitive basis.
- The school must submit to the Department an annual lender compliance audit for any year in which the school engages in activities as an eligible lender. This requirement applies regardless of the size of the school's loan portfolio or annual loan volume.

In addition, a correction to previous policy removes the requirement that the school separate its lending function from other school functions and that the school employ at least one person whose responsibilities are limited to the lending function. The requirement is revised to require that the school

employ one person whose responsibilities are limited to the administration of financial aid programs for students attending that school.

Affected Sections:

3.2 Schools Acting as Lenders

Effective Date:

In order to participate as a lender, the school must have met eligibility criteria as of February 7, 2006, and must have made a FFELP loan(s) on or before April 1, 2006.

New requirements are effective for schools acting as lenders on or after July 1, 2006.

Basis:

The school lender must offer origination fees or interest rates, or both, that are less than the statutory maximums for those fees or rates for any loan first disbursed on or after July 1, 2006.

Higher Education Act of 1965, Section 435(d)(2), as amended by the Higher Education Reconciliation Act (HERA) of 2005; Dear Colleague Letter GEN-06-02.

Policy Information:

876/Batch 131

Guarantor Comments:

None.

Teacher Loan Forgiveness Eligibility

The *Common Manual* has been revised to reinstate the previous increased teacher loan forgiveness amounts of up to \$17,500 for teachers in certain specialties and also reinstates the additional eligibility criteria that were imposed by previous legislation.

Affected Sections:

13.9.B Teacher Loan Forgiveness Program

Effective Date:

October 1, 2005.

Basis:

The Taxpayer-Teacher Protection Act of 2004, as amended by the Higher Education Reconciliation Act (HERA) of 2005.

Policy Information:

877/Batch 131

Guarantor Comments:

None.

Teacher Loan Forgiveness Eligibility

The *Common Manual* has been revised to state that a teacher who is employed in a nonprofit private school and who is exempt from state certification requirements may have such employment qualify for loan forgiveness if the teacher can demonstrate rigorous subject knowledge and skills by taking competency tests in the applicable grade levels and subject areas. The competency tests must be recognized by five or more states for the purpose of fulfilling the highly qualified teacher requirements, and the score achieved by a teacher on each test must equal or exceed the average passing score of those five states. If a nonprofit private school teacher is subject to state certification, the teacher is not required to further demonstrate the knowledge and skills noted in this paragraph or to take additional competency tests.

Affected Sections:

13.9.B Teacher Loan Forgiveness Program

Effective Date:

Teacher Loan Forgiveness Applications received by the lender or guarantor on or after July 1, 2006.

Basis:

Higher Education Act of 1965, Section 428J(g), as amended by the Higher Education Reconciliation Act (HERA) of 2005; Dear Colleague Letter GEN-06-02.

Policy Information:

878/Batch 131

Guarantor Comments:

None.

Change in Stafford Loan Interest Rate

The *Common Manual* has been amended to comply with current statutory language that requires loans first disbursed on or after July 1, 2006, be a fixed interest rate of 6.8%, as a result of legislative changes reflected in Public Law 107-139, enacted in February 2002.

Affected Sections:	7.4.A Current Stafford Interest Rates 7.4.C Previous Stafford Interest Rates Figure 7-1 Stafford Loan Interest Rates 10.3.A Length of the Grace Period
Effective Date:	Stafford loans first disbursed by the lender on or after July 1, 2006.
Basis:	Higher Education Act of 1965, Section 427A(l); Public Law 107-139.
Policy Information:	879/Batch 131
Guarantor Comments:	None.

Federal Consolidation Loan Borrower Eligibility Criteria

The *Common Manual* has been corrected to clarify that in order to qualify for a Federal Consolidation loan, a borrower must certify that he or she does not have another Federal Consolidation loan or Direct Consolidation loan application pending.

Affected Sections:	15.2 Borrower Eligibility and Underlying Loan Holder Requirements
Effective Date:	Federal Consolidation loan applications received by a FFELP lender on or after October 1, 1998.
Basis:	§682.201(c)(1)(ii).
Policy Information:	880/Batch 131
Guarantor Comments:	None.

Deferment Eligibility Chart

The Deferment Eligibility Chart (Figure 11-1) has been revised by removing the bullets that indicate that for PLUS loans made before 8/15/83 and before July 1, 1987, a PLUS loan borrower who is seeking a deferment based on the status of the dependent student for whom the loan was obtained, qualifies for an in-school deferment if the student is attending school full time or half time.

Affected Sections:	Figure 11-1 Deferment Eligibility Chart
Effective Date:	None.
Basis:	§682.210(c).
Policy Information:	881/Batch 131
Guarantor Comments:	None.

Academic Year Definition

The *Common Manual* has been updated to incorporate changes derived from the HERA of 2005. This change reduces the minimum academic year requirement for a program of study measured in clock hours from 30 weeks to 26 weeks.

Affected Sections:	6.1 Defining an Academic Year 6.11.E Prorated Loan Limits
Effective Date:	Loan periods beginning on or after July 1, 2006.
Basis:	Higher Education Act of 1965, Section 481(a)(2), as amended by the Higher Education Reconciliation Act (HERA) of 2005; Dear Colleague Letter GEN-06-05.
Policy Information:	882/Batch 132
Guarantor Comments:	None.

Elimination of Request for Early Repayment

The *Common Manual* has been revised to reflect statutory changes derived from the HERA that eliminate a Stafford borrower's option of waiving all or a portion of his or her grace period in order to enter repayment early.

Affected Sections:	10.3 Grace Period
Effective Date:	Stafford borrower requests for early repayment received by the lender on or after July 1, 2006.

Basis: Higher Education Act of 1965, Section 428(b)(7)(A), as amended by the Higher Education Reconciliation Act (HERA) of 2005; Dear Colleague Letter GEN-06-02.

Policy Information: 883/Batch 132

Guarantor Comments: None.

Federal Default Fee

The *Common Manual* has been updated to reflect the change from guarantee fee to federal default fee as made to the HEA through the HERA of 2005. A definition was added to the glossary that states that the federal default fee is collected either by deduction from the proceeds of the loan or from other nonfederal sources. The HEA requires that this fee equal one percent of the loan's principal. In addition, the glossary has been revised to define "guarantee fee" as a fee the guarantor was permitted to charge on a loan disbursed on or after July 1, 1994, and for which the date of guarantee of principal was before July 1, 2006.

Affected Sections: **7.8 Processing Guarantee Fees
appendix G**

Effective Date: Federal Stafford and PLUS loans guaranteed on or after July 1, 2006.

Basis: Higher Education Act of 1965, Section 428(b)(1)(H)(i) and (ii) and Section 428H(h), as amended by the Higher Education Reconciliation Act (HERA) of 2005; Dear Colleague Letter GEN-06-02.

Policy Information: 884/Batch 132

Guarantor Comments: None

Fraud Charges and Title IV Eligibility

The *Common Manual* has been revised to state that a student or parent borrower who has been convicted of, or pleaded guilty or *has nolo contendere* to, a crime involving fraud in obtaining Title IV assistance is ineligible for additional Title IV funds until the student or parent, as applicable, repays the funds that were obtained fraudulently. Title IV grant funds that were obtained fraudulently must be repaid to the Department; Title IV loan funds obtained fraudulently must be repaid to the holder of the loan. The student or parent borrower's eligibility under this provision based on the certification provided in the Master Promissory Note (MPN). Regardless of the MPN certification, if either the school or the lender has conflicting information regarding the eligibility of the student or parent borrower, this discrepancy must be resolved before additional Title IV funds may be disbursed or delivered.

Affected Sections:

- 5.1.A General Borrower and Student Eligibility Requirements**
- 5.7 Effect of Drug Conviction on Eligibility**
- 5.8 Required High School diploma or Equivalent**
- 5.9 Ability-to-Benefit Provisions**
- 5.9.A Testing ATB Students with Special Needs**
- 5.9.B School Liability in ATB Testing**
- 5.10 Student Enrollment Requirements**
- 5.11 Use of Telecommunications and Correspondence in Programs of Study**
- 5.12 Foreign Schools and Study-Abroad Programs**
- 5.12.A Study at Participating Foreign Schools**
- 5.12.B Study-Abroad Programs**
- 5.13 Eligibility Requirements Specific to Transfer Students**
- 5.13.A Financial Aid History for Transfer Students**
- 5.13.B Students Who Transfer after Full Disbursement of the Loan**
- 5.14 Multiple School Enrollment**
- 5.15 Ineligible Borrowers**
- 5.15.A Ineligibility Based on Borrower Error**
- 5.15.B Ineligibility Based on School Error**
- 5.15.C Ineligibility Based on Lender Error**

Effective Date: Loan periods beginning on or after July 1, 2006.

Basis: Higher Education Act of 1965, Sections 428B(a)(1) and 484(a)(6), as amended by the Higher Education Reconciliation Act (HERA) of 2005; Dear Colleague Letter GEN-06-05.

Policy Information: 885/Batch 132
Guarantor Comments: None.

False Certification Due to Identity Theft

The *Common Manual* is being revised to add information about loan discharge for false certification due to a crime of identity theft. Until the date that the Department's applicable discharge regulations are effective, a lender may provide administrative forbearance on a borrower's potentially eligible loan(s) if a borrower presents evidence, on or after July 1, 2006, that the lender believes to be reasonably persuasive, showing that the borrower's loan(s) may have been falsely certified due to a crime of identity theft.

Affected Sections: **Figure 11-2 Forbearance Eligibility Chart**
11.19.C Closed School or False Certification
13.8.D False Certification

Effective Date: False certification due to identity theft documentation provided to a lender on or after July 1, 2006.

Basis: Higher Education Act of 1965, Section 437(c)(1), as amended by the Higher Education Reconciliation Act (HERA) of 2005; Dear Colleague Letter GEN-06-02.

Policy Information: 886/Batch 132
Guarantor Comments: None.

Reduction of the Origination Fee

The *Common Manual* has been revised to state that the maximum origination fee that may be charged to a Stafford loan borrower will be reduced, and eventually eliminated, beginning July 1, 2006, as follows:

3. For a Stafford loan first disbursed on or after July 1, 2006, the maximum origination fee that a lender may charge is 2%.
4. For a Stafford loan first disbursed on or after July 1, 2007, the maximum origination fee that a lender may charge is 1.5%.
5. For a Stafford loan first disbursed on or after July 1, 2008, the maximum origination fee that a lender may charge is 1%.
6. For a Stafford loan first disbursed on or after July 1, 2009, the maximum origination fee that a lender may charge is 0.5%.
7. For a Stafford loan first disbursed on or after July 1, 2010, there will be no origination fee (the fee will be eliminated).

These reductions are not applicable to PLUS loans made either to parents or to graduate and professional students. The lender must charge the full 3% origination fee to any PLUS borrower.

Affected Sections: **3.5.A Federal Origination Fee and Lender Fee**
7.9.A Collecting the Origination Fee
Figure 7-4 Examples of Calculating Guarantee Fee Refunds

Effective Date: Stafford loans first disbursed by the lender on or after July 1, 2006, July 1, 2007, July 1, 2008, July 1, 2009, and July 1, 2010, respectively.

Basis: Higher Education Act of 1965, Section 438(c)(2)(B), as amended by the Higher Education Reconciliation Act (HERA) of 2005; Dear Colleague Letter GEN-06-02.

Policy Information: 887/Batch 132
Guarantor Comments: None.

Return of Title IV Funds

The *Common Manual* has been updated to incorporate changes to the return of Title IV funds requirements derived from the HERA, as follows:

- The method for computing the percentage of the payment period or period of enrollment completed for a student who withdraws from a clock-hour program has been simplified. That percentage is now determined by dividing the total number of clock hours comprising the

payment period or period of enrollment for which assistance is awarded into the number of clock hours scheduled to be completed by the student in that period as of the day the student withdrew.

- The return of Title IV funds requirements no longer apply to LEAP, SLEAP, GEAR UP, and SSS funds. Federal Work-Study funds and the nonfederal share of an FSEOG award (if the school meets its matching share by the individual recipient method or the aggregate method) continue to be excluded from the calculation.
- The time frame in which the school must return funds under the return of Title IV calculation has been lengthened from 30 days to 45 days after the date the school determines that the student has withdrawn.
- The amount of a grant overpayment due from a student as a result of the return of Title IV funds calculation is limited to the amount by which the original grant overpayment amount exceeds half of the total Title IV grant funds that the student received. A student is not required to repay a grant overpayment of \$50 or less resulting from the return of Title IV funds calculation.

Affected Sections:	8.9.C Return of Unearned Loan Funds 9.4 Withdrawal Dates 9.5.A Return Amounts for Title IV Grant and Loan Programs 9.5.B Processing Returned Funds 9.5.D Return of Title IV Funds Calculations for Students Subject to Verification
Effective Date:	Withdrawals that occur on or after July 1, 2006.
Basis:	Higher Education Act of 1965, Sections 484B(a)(3)(B)(ii), 484B(b)(1), 484B(b)(2)(C), and 484B(d)(2), as amended by the Higher Education Reconciliation Act (HERA) of 2005; Dear Colleague Letter GEN-06-05.
Policy Information:	888/Batch 132
Guarantor Comments:	None.

Cost of Attendance

The *Common Manual* has been updated to give a school the option to include a cost of attendance (COA) component for the one-time cost of obtaining the first professional credential, as determined by the school, for a student enrolled in a program that requires professional licensure or certification. The license or certification must be required by a state or must be commonly accepted as required to practice or be employed in the profession. In addition, the cost must be incurred while the student is enrolled in school and must not include costs associated with preparing the student for a test required for licensing or certification unless the preparation is part of the eligible program.

Affected Sections:	6.5.A COA Components
Effective Date:	Loan periods beginning on or after July 1, 2006.
Basis:	Higher Education Act of 1965, Section 472(13), as amended by the Higher Education Reconciliation Act (HERA) of 2005; Dear Colleague Letter GEN-06-05 and GEN-06-10.
Policy Information:	889/Batch 132
Guarantor Comments:	None.

Independent Student Definition

The *Common Manual* has been updated to add a new circumstance under which a student may be considered to be independent for Title IV purposes. For the purpose of determining a student's dependency status, a student is considered to be independent if he or she is currently serving on active duty in the U.S. Armed Forces or is a National Guard or Reserves enlistee and is called to active duty for purposes other than training. In this case, active duty does not include a call into active duty for state purposes.

Affected Sections:	6.8 Determining the Student's Dependency Status
Effective Date:	Loan periods beginning on or after July 1, 2006.

Basis: Higher Education Act of 1965, Section 480(d)(3), as amended by the Higher Education Reconciliation Act (HERA) of 2005; Dear Colleague Letters GEN-06-05 and GEN-06-10.
Policy Information: 890/Batch 132
Guarantor Comments: None.

Treatment of Qualified Education Benefits

The *Common Manual* has been updated to remove qualified education benefits from the calculation of a student's estimated financial assistance.

The manual has also added the definition of "qualified education benefit" to the glossary, as follows:

Qualified Education Benefit - Refers to qualified tuition programs (e.g., 529 prepaid tuition plans and savings plans), prepaid tuition plans offered by a state, and Coverdell education savings accounts.

Affected Sections: **6.7 Determining the Amount of Estimated Financial Assistance appendix G**
Effective Date: Loan periods beginning on or after July 1, 2006.
Basis: Higher Education Act of 1965, Sections 480(f)(3) and (4), as amended by the Higher Education Reconciliation Act (HERA) of 2005; Dear Colleague Letters GEN-06-05 and GEN-06-10.
Policy Information: 891/Batch 132
Guarantor Comments: None.

Assistance from States

The *Common Manual* has been updated to state that any non-Title IV state assistance that the state specifies must be used to pay a specific component of the cost of attendance (COA) may be excluded from the EFA if the costs paid by those state funds are also excluded from the COA.

Affected Sections: **6.5 Determining the Student's Cost of Attendance (COA)**
6.7 Determining the Amount of Estimated Financial Assistance (EFA)
Effective Date: Loan periods beginning on or after July 1, 2006.
Basis: Higher Education Act of 1965, Section 480(j)(3), as amended by the Higher Education Reconciliation Act (HERA) of 2005; Dear Colleague Letter GEN-06-05.
Policy Information: 892/Batch 132
Guarantor Comments: None.

PLUS Loans for Graduate and Professional Students

The *Common Manual* has been updated to include information about graduate and professional student PLUS (Grad PLUS) loans. A school that participates in the Federal PLUS Loan Program and offers both undergraduate and graduate or professional programs must offer PLUS loans both to parents who wish to borrow on behalf of their dependent undergraduate students and the school's graduate and professional students. Schools are not permitted to exclude either category of borrower from participation in the Federal PLUS Loan Program.

Before applying for a PLUS loan, the graduate or professional student is required to complete a Free Application for Federal Student Aid (FAFSA) and the school is required to determine the student's maximum eligibility for subsidized and unsubsidized Stafford loan funds. However, the student may decline the Stafford loan funds and the school may not require the student to accept Stafford loan funds as a condition of applying for a Grad PLUS loan.

The PLUS MPN may be used by a graduate or professional student borrower to obtain one or more Grad PLUS loans. The graduate or professional student borrower completes both the student and the parent sections of the PLUS MPN with information about the graduate or professional student, and submits it to the school, the lender, or the guarantor, depending on the process established by the school. A school

may certify a Grad PLUS loan for a graduate or professional student only if the student meets the eligibility criteria for both a student and a Grad PLUS loan borrower.

A school determines a graduate or professional student borrower's maximum eligibility for a Grad PLUS loan by subtracting from the cost of attendance (COA) the estimated financial assistance (EFA) that the student is expected to receive for the loan period.

In addition, the following glossary definitions have been added to the manual:

Grad PLUS Loan: A PLUS loan made to a graduate or professional student.

Parent PLUS Loan: A PLUS loan made to the parent of a dependent undergraduate student.

Affected Sections:	2.1.B	Types of Loans Available
	2.2	The Life of a FFELP Loan
	2.2.A	Origination
	3.4.A	Recordkeeping Requirements
	4.5	Recordkeeping Requirements
	5.1.A	General Borrower and Student Eligibility Requirements
	5.1.B	Student Eligibility Requirements
	5.1.C	Parent Borrower Eligibility Requirements
	5.2	Federal Data Matches
	5.2.D	Prior Overpayment
	5.2.E	Prior Default
	5.11	Use of Telecommunications and Correspondence in Programs of Study
	5.12.A	Study at Participating Foreign Schools
	5.12.B	Study-Abroad Programs
	5.14	Multiple School Enrollment
	6.11.C	Increased Unsubsidized Stafford Loan Limits for Health Profession Students
	6.11.D	Exceeding Loan Limits
	6.11.E	Prorated Loan Limits
	6.11.F	Effects of Consolidation Loan on New Stafford Loan Eligibility
	6.15	School Certification of the Loan
	6.15.C	PLUS Loan Certification
	6.16	Applying for Federal Stafford and PLUS Loans
	7.1.A	General Determinations
	7.1.B	Creditworthiness
	7.2.A	Lender Responsibilities under a Master Promissory Note
	7.7.C	Disbursement by Individual Check
	7.7.D	Disbursement by Electronic Funds Transfer (EFT) or Master Check
	7.7.E	Disbursement for Students in Study-Abroad Programs or Foreign Schools
	8.2	Required Notices
	8.7	Delivering Loan Funds at Eligible Schools
	8.7.C	Early Delivery
	8.7.E	Late Delivery
	8.7.H	Delivery Methods
	8.8.C	Treatment of a Title IV Credit Balance When a Student Withdraws
	8.9.D	Return of Loan Funds for a Deceased Borrower
	9.4	Withdrawal Dates
	9.5	Return of Title IV Funds
	9.5.A	Return Amounts for Title IV Loan and Grant Programs
	9.5.D	Return of Title IV Funds Calculations for Students Subject to Verification
	10.1	Verifying Enrollment
	10.5.D	Revised Out-of-School Dates before Conversion to Repayment
	11.1	Authorized Deferment

11.5.A Eligibility Criteria—In School
11.12.A Eligibility Criteria—Rehabilitation Training Program
Figure 12-5
Figure 13-1
Figure 13-2
appendix G

Effective Date: Loans certified by the school on or after July 1, 2006.
Basis: Higher Education Act of 1965, Section 428(B), as amended by the Higher Education Reconciliation Act (HERA) of 2005; Dear Colleague Letter GEN-06-02/FP-06-01; Dear Colleague Letter FP-06-05.
Policy Information: 893/Batch 133
Guarantor Comments: None.

Program Eligibility Using Direct Assessment

The *Common Manual* has been updated to include direct assessment as a means of measuring student learning, in addition to the existing measures of clock and credit hours. Direct assessment must be consistent with the accreditation of the school or program utilizing the results of the assessment. The Department must determine whether such a program is an eligible program for Title IV purposes.

Affected Section: **4.1.C Maintaining Eligibility**
Effective Date: Loan periods beginning on or after July 1, 2006, for programs that are approved by the Department.
Basis: Higher Education Act of 1965, Section 481(b)(4), as amended by the Higher Education Reconciliation Act (HERA) of 2005; Dear Colleague Letter GEN-06-05.
Policy Information: 894 /Batch 133
Guarantor Comments: None.

Expansion of Eligibility to Telecommunications and Correspondence Programs

The *Common Manual* has been updated to expand the definition of “eligible programs” as it relates to the use of telecommunications in programs of study. Revised policy clarifies that courses offered by telecommunications are no longer considered to be correspondence courses, and students enrolled in telecommunications courses are no longer considered to be correspondence students. As a result, an otherwise eligible school that offers over 50 percent of its courses by telecommunications, or has 50 percent or more of its regular students enrolled in telecommunications courses, is now eligible to participate in the Title IV programs. Revised policy also reflects that a student enrolled in a short-term certificate program of less than one year offered by telecommunications is now eligible for Title IV program assistance. A program of study offered at a foreign school that includes a telecommunications course is ineligible for Title IV program assistance. Telecommunications technologies may be used in the foreign school classroom to supplement and support instruction offered as part of an otherwise eligible program.

The 50-percent limitations continue to apply to correspondence courses and the students enrolled in those courses

Affected Sections: **5.11 Use of Telecommunications and Correspondence in Programs of Study**
appendix G
Effective Date: Loan periods beginning on or after July 1, 2006.
Basis: Higher Education Act of 1965, Sections 481(b)(3) and 484(l)(1), as amended by the Higher Education Reconciliation Act (HERA) of 2005; Dear Colleague Letters GEN-06-05 and GEN-06-11; 2006-2007 *Federal Student Aid Handbook*.
Policy Information: 895Batch 133
Guarantor Comments: None.

Exceeding Loan Limits

The *Common Manual* is updated to provide additional clarification regarding satisfactory repayment arrangements in situations where a student inadvertently exceeds the annual or aggregate loan limit. If a Stafford borrower inadvertently exceeds an annual or aggregate loan limit under a Title IV program, the loan holder may allow the student to sign an agreement acknowledging the debt and affirming the borrower's intention to repay the excess amount as part of the normal repayment process. Additionally, consolidation of the loan(s) that exceeded the annual or aggregate loan limit is considered a satisfactory repayment arrangement

Affected Sections:	6.11.D Exceeding Loan Limits
Effective Date:	Satisfactory repayment arrangements for overpayments created by inadvertent over borrowing made on or after July 1, 2005, unless implemented earlier by the lender.
Basis:	§668.35(d)(2); 2005-06 <i>Federal Student Aid Handbook</i> , Volume 5, Chapter 1, Page 5-7.
Policy Information:	896/Batch 133
Guarantor Comments:	None.

Change in PLUS Interest Rate

The *Common Manual* has been amended to reflect the statutory change made by the HERA to require a FFELP PLUS loan first disbursed on or after July 1, 2006, to carry a fixed interest rate of 8.5%.

Affected Sections:	5.A Current PLUS Interest Rate Figure 7-2 PLUS and SLS Loan Interest Rates
Effective Date:	PLUS loans first disbursed by the lender on or after July 1, 2006.
Basis:	Higher Education Act of 1965, Section 427A(l)(2), as amended by the Higher Education Reconciliation Act (HERA) of 2005; Dear Colleague Letters GEN-06-02/FP-06-01, FP-06-04, and FP-06-05.
Policy Information:	897/Batch 133
Guarantor Comments:	None.

Late Disbursement and Post-Withdrawal Disbursement of FFELP Funds

The *Common Manual* has been updated to incorporate changes derived from the HERA as follows. Prior to delivering a late disbursement or post-withdrawal disbursement of loan funds to the borrower, the school must explain that the borrower is obligated to repay any loan funds that the school delivers, and confirm that the borrower still requires the loan funds. The school is also required to document the student's file regarding the result of the contact and the final determination concerning the late disbursement or post-withdrawal disbursement.

Affected Sections:	8.2.A Initial Notice of Funds 8.7.E Late Delivery 9.5.A Return Amounts for Title IV Loan and Grant Programs
Effective Date:	Effective for withdrawals that occur on or after July 1, 2006.
Basis:	Higher Education Act of 1965, Section 484B(a)(4)(A), as amended by the Higher Education Reconciliation Act (HERA) of 2005; Dear Colleague Letter GEN-06-05.
Policy Information:	898/Batch 133
Guarantor Comments:	None.

New Military Deferment

The *Common Manual* has been revised by changing the name of the current military deferment to the Armed Forces deferment and moving the information from section 11.7 to 11.3 to maintain consistency by providing information about deferment types in alphabetical order. Several sections and subsections in chapter 11 have been renumbered to accommodate the movement of existing text and the insertion of new text in section 11.8 about the new military deferment created by the HERA.

The new military deferment covers a borrower's loan(s) that are first disbursed on or after July 1, 2001, while a borrower is serving on active duty during a war or other military operation, or a national

emergency, or while a borrower is performing qualifying National Guard duty during a war or other military operation, or a national emergency.

The military deferment is loan-specific. This deferment is available only for a borrower's Stafford and PLUS loans first disbursed on or after July 1, 2001, and Consolidation loans when all Title IV loans included in the Consolidation loan are loans that were first disbursed on or after July 1, 2001. The borrower must meet the qualifications after July 1, 2001.

This deferment is available only for periods during which a borrower is performing one of the following services:

8. Serving on active duty during a war or other military operation, or a national emergency.
9. Performing qualifying National Guard duty during a war or other military operation, or a national emergency.

In the context of the new military deferment, the following definitions apply:

10. *Active duty* means serving in full-time duty in the active military service of the U.S., not including training or attendance at a service school.
11. *Military operation* means a contingency operation in which a member of the Armed Forces is, or may become, involved in military actions, operations, or hostilities against an enemy of the U.S. or against an opposing military force; or results in the call or order to, or retention on, active duty of members of the uniformed services under 10 U.S.C. 688, 12301(a), 12302, 12304, 12305, or 12406, 10 U.S.C. chapter 15, or any other provision of law during a war or during a national emergency declared by the president or Congress.
12. *National emergency* means a national emergency by reason of certain terrorist attacks declared by the president on September 14, 2001, or subsequent national emergencies declared by the president by reason of terrorist attacks.
13. *Qualifying National Guard duty* means training or other duty, other than inactive duty, performed by a member of the U.S. Army National Guard or the Air National Guard on full-time National Guard duty as called to service authorized by the president or the secretary of defense. The training or other duty must be performed for more than 30 consecutive days in connection with a war or other military operation, or a national emergency as declared by the president and supported by federal funds.
14. *Serving in active duty* means service by an individual who is a Reserve of an Armed Force ordered to active duty under 10 U.S.C. 12301(a), 12301(g), 12302, 12304, or 12306, or any retired member of an Armed Force ordered to active duty under 10 U.S.C. 688 of such title, for service in connection with a war or other military operation or national emergency, regardless of the location at which the active duty service is performed. This also includes any other member of an Armed Force on active duty in connection with such emergency or subsequent actions of conditions who has been assigned to a duty station at a location other than where the member is normally assigned.

Not all active duty military personnel are eligible for the new military deferment. Borrowers who do not qualify for this deferment may be eligible for the Armed Forces deferment.

A borrower is not eligible for a refund of any loan payments made prior to the time the deferment is granted.

A borrower must request the deferment and provide the lender with the documentation of his or her duty status. This documentation must include a copy of the borrower's military orders, or a written statement from the borrower's commanding or personnel officer that the borrower is serving on active duty during a war or other military operation, or a national emergency, or performing qualifying National Guard duty during a war or other military operation, or a national emergency, as those terms are defined.

The deferment begins on the date the condition entitling the borrower to the deferment first existed, as

determined by the lender. The deferment ends on the earlier of the date that is no later than 3 years after the date on which it began, or the date on which the borrower's qualifying service is certified to end or actually ends.

Affected Sections:	11.3 Economic Hardship Deferment Through 11.22.D Applying a Mandatory Forbearance Retroactively
Effective Date:	Military deferments granted on or after July 1, 2006, for loans for which the first disbursement is made on or after July 1, 2001.
Basis:	Higher Education Act of 1965, Section 428(b)(1)(M), as amended by the Higher Education Reconciliation Act (HERA) of 2005; Dear Colleague Letter GEN-06-02.
Policy Information:	899/Batch 133
Guarantor Comments:	None.

Forbearance Agreements

The *Common Manual* has been revised to comply with statutory changes derived from the Higher Education Reconciliation Act (HERA) of 2005. In all cases when a forbearance agreement is required, a lender and the borrower may agree to the terms of forbearance verbally or in writing. A lender that grants a forbearance based on a verbal agreement with the borrower must record the forbearance terms in the borrower's file and send a notice to the borrower confirming the terms of the forbearance agreement.

Affected Sections:	11.18.B Documentation Required for Authorized Forbearance 11.18.G Forbearance of Defaulted Loans 11.18.H Borrower Contact during Forbearance 11.20 Discretionary Forbearance 11.21 Mandatory Administrative Forbearance 11.21.A Death 11.22 Mandatory Forbearance
Effective Date:	Forbearance agreements granted or renegotiated by the lender on or after July 1, 2006.
Basis:	Higher Education Act of 1965, Sections 428(c)(3)(A) and 428(c)(10), as amended by the Higher Education Reconciliation Act (HERA) of 2005; Dear Colleague Letter GEN-06-02.
Policy Information:	900/Batch 133
Guarantor Comments:	None.

Ineligible Borrower Claims

The *Common Manual* has been updated to provide that an ineligible borrower claim of a loan first disbursed on or after July 1, 2006, is eligible for payment of 100% of principal and eligible interest.

Affected Sections:	12.4.F Ineligible Borrower Due Diligence 13.3.A Claim Payment Amount 13.3.C Amount of Interest Purchased on Returned Claims
Effective Date:	Ineligible borrower claims filed by the lender on loans first disbursed on or after July 1, 2006.
Basis:	Higher Education Act of 1965, Section 428(c)(1)(G), as amended by the Higher Education Reconciliation Act (HERA) of 2005, Dear Colleague Letters GEN-06-02 and FP-06-07.
Policy Information:	901/Batch 133
Guarantor Comments:	None.

Special Allowance Rates

The *Common Manual* has been revised to reflect statutory changes derived from the HERA that make permanent the temporary special allowance maximum/minimum income provisions of the Taxpayer-Teacher Protection Act of 2004. These provisions state that loans financed with proceeds from tax-exempt obligations originally issued prior to October 1, 1993, revert to the regular special allowance rates paid on other loans if certain actions occur after September 30, 2004. The manual has also been revised

to reflect statutory changes derived from the HERA that prohibit loans from being subject to the minimum/maximum special allowance rates for certain tax-exempt bond issues if the loan was made or purchased on or after February 8, 2006, or is not earning the minimum quarterly special allowance as of February 8, 2006. However, certain holders of these loans remain subject to the maximum/minimum special allowance rates until December 31, 2010, if all of the following apply:

15. The holder was a unit of the state or local government or a nonprofit private entity as of February 8, 2006, and during the quarter for which the special allowance is paid.
16. The holder is not owned or controlled by, or under the common ownership or control with, a for-profit entity as of February 8, 2006, and during the quarter for which special allowance is paid.
17. The holder held, directly or through any subsidiary, affiliate, or trustee, a total unpaid balance of principal equal to or less than \$100 million on loans for which maximum/minimum special allowance was paid in the most recent quarterly payment prior to September 30, 2005.

Affected Sections:

A.2.A Special Allowance Rates

Effective Date:

Provisions relating to the Taxpayer-Teacher Protection Act of 2005 are effective October 1, 2004, for loans financed by tax-exempt obligations originally issued prior to October 1, 1993.

Basis:

Provisions relating to the Higher Education Reconciliation Act (HERA) of 2005 are effective February 8, 2006.

Taxpayer-Teacher Protection Act of 2005, as amended by the Higher Education Reconciliation Act (HERA) of 2005; Higher Education Act of 1965, Section 438(b)(2)(B)(iv) through (vi), as amended by the HERA; Dear Colleague Letter FP-06-04.

Policy Information:

902/Batch 131

Guarantor Comments:

None.